

# Exhibit M



# Background Briefing

## SCHOOL AID

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January 2011

The fiscal information in this background briefing is based on data through January 1, 2011.

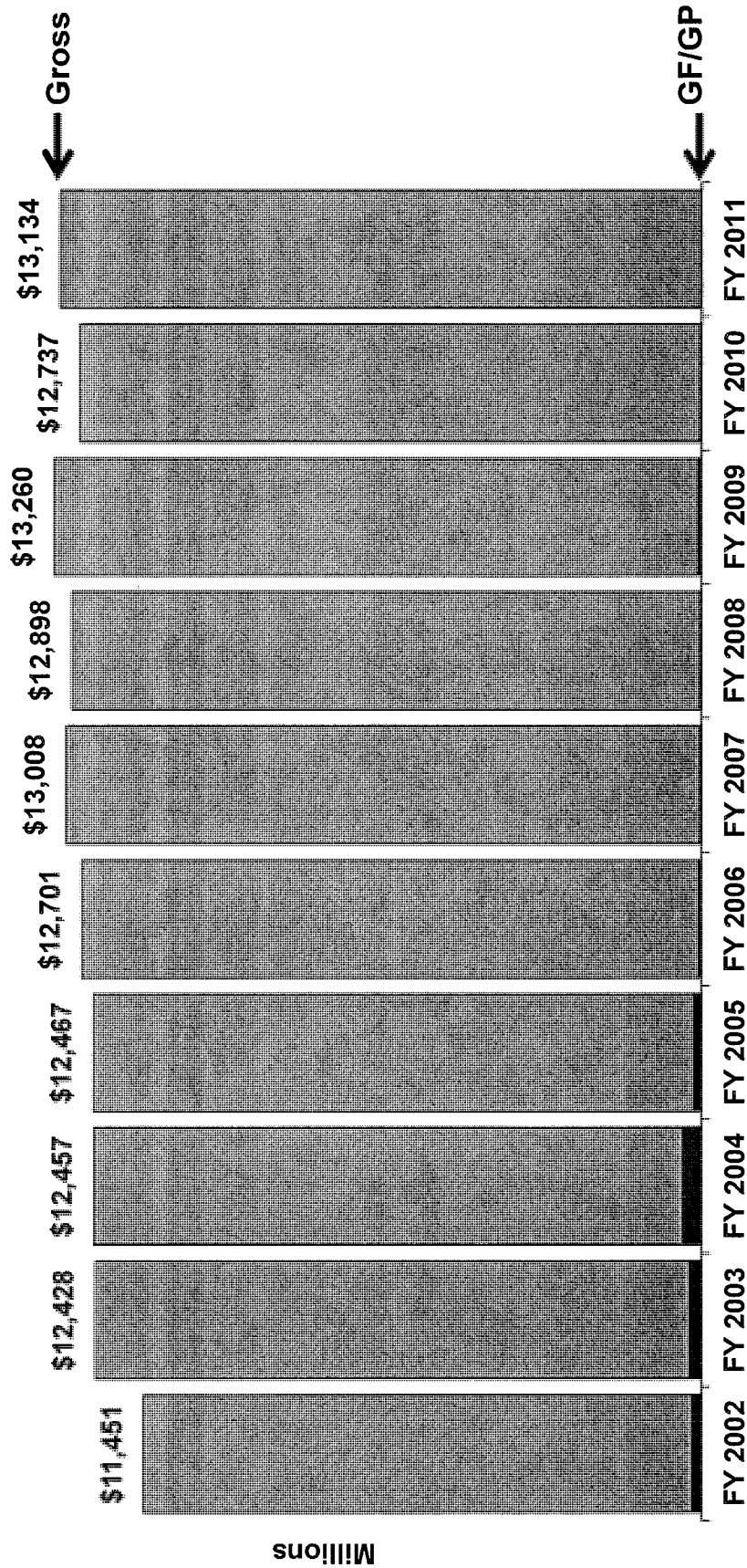
# School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

--- The Michigan Constitution

# School Aid: Gross Appropriations

School Aid appropriations have remained fairly flat over the last ten years with Federal ARRA and EdJobs funds providing significant support from FY 2008-09 to FY 2010-11.



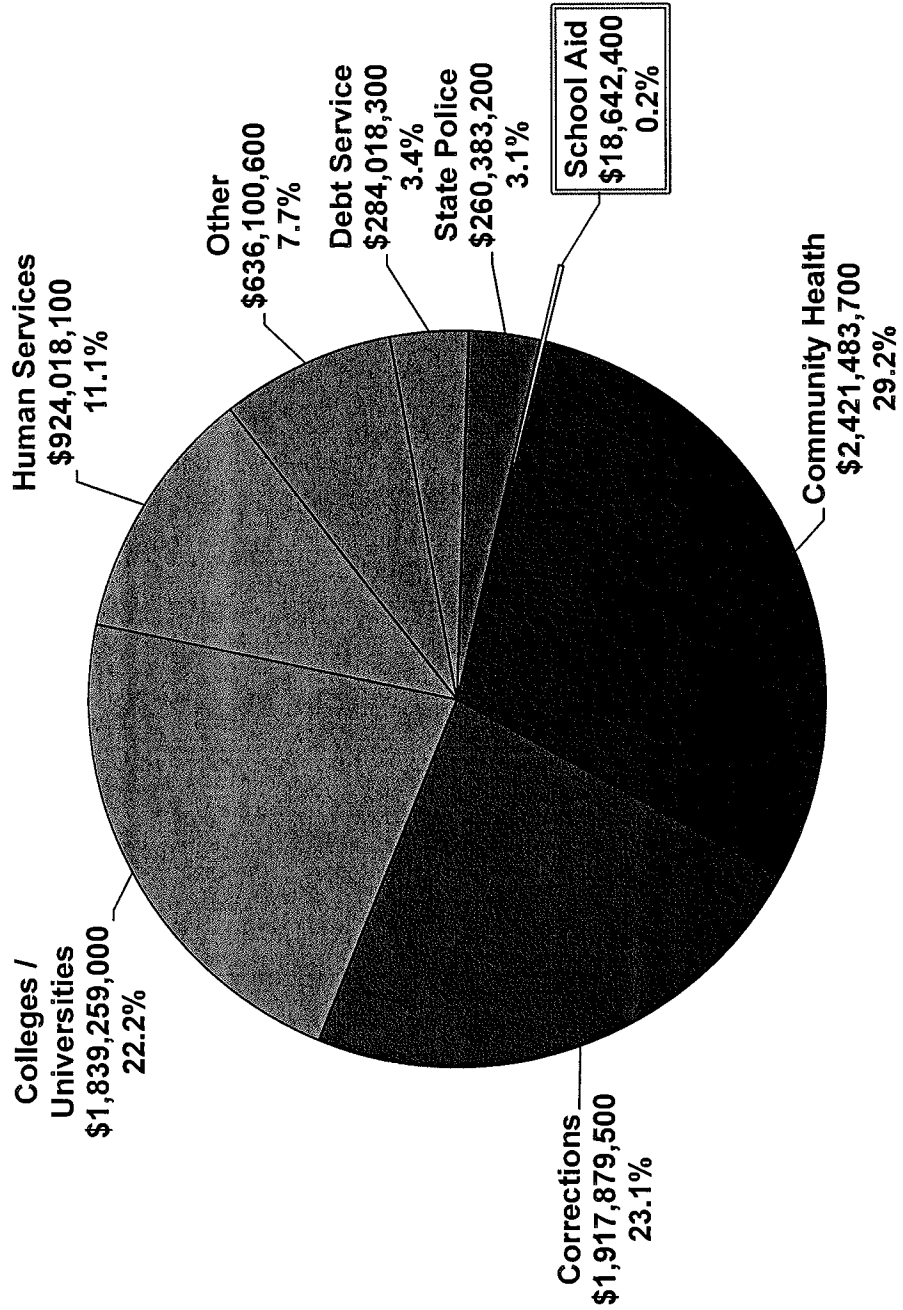
## Notes:

1. FY 2003 increase due to nearly \$750 million in federal grants that were transferred to School Aid budget from the Dept of Education budget.
2. FYs 2003 and 2004 appropriations are adjusted for mid-year proration reductions.
3. Beginning in FY 2009 figures include a \$342 million shift from local expenditures to State School Aid associated with business tax changes.
4. FY 2009 through FY 2011 each include between \$450 million and \$600 million in contributions from Federal ARRA and EdJobs funding.

# School Aid Share of State GF/GP

The School Aid budget makes up 0.22% of the total state GF/GP budget

**FY 2010-11 GF/GP Total = \$8,301,784,800**

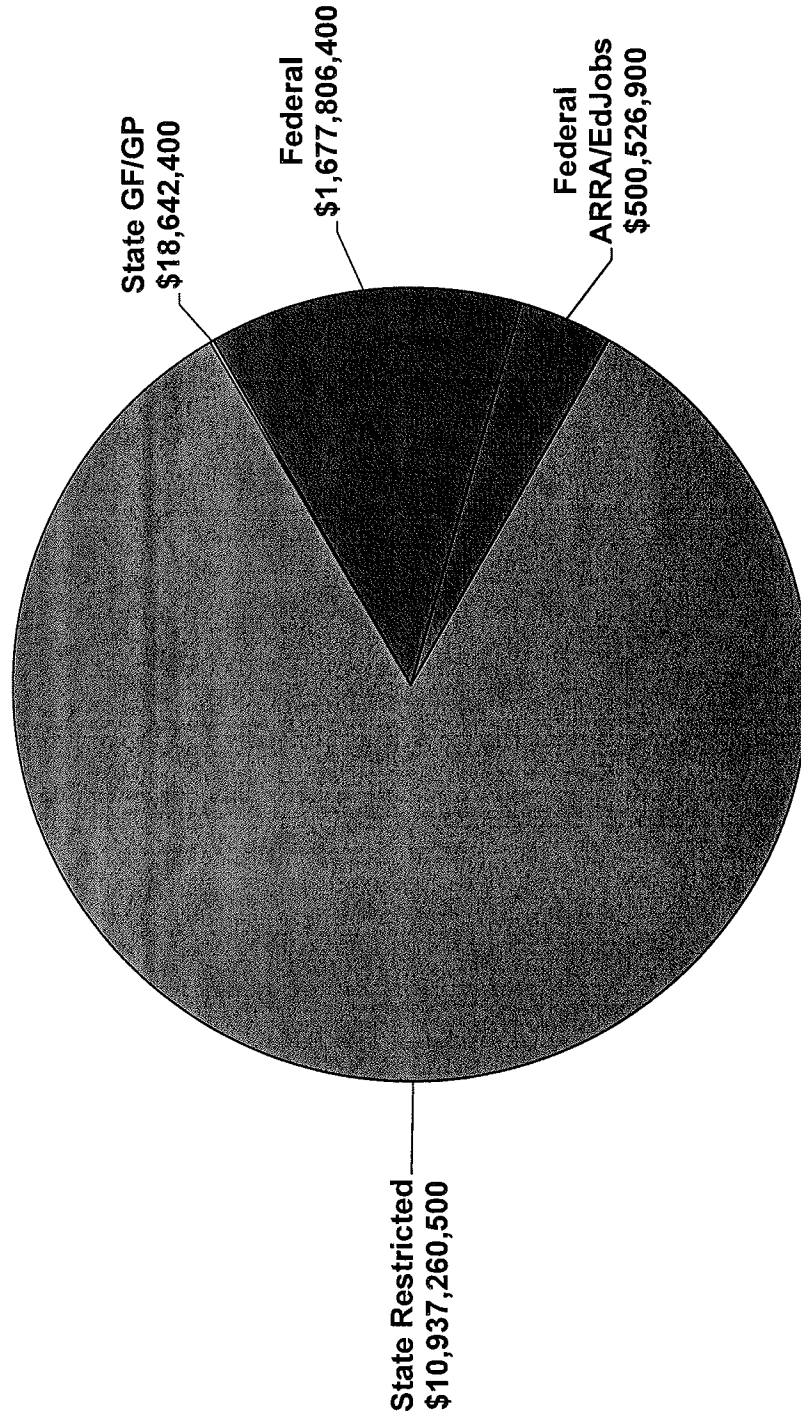


# **SOURCES OF FUNDING**

# School Aid Funding Sources

School Aid Fund restricted funds are the largest revenue source in the School Aid budget.

FY 2010-11 School Aid Budget = \$13,134,236,200





# **SCHOOL AID APPROPRIATIONS**



# School Aid Appropriations

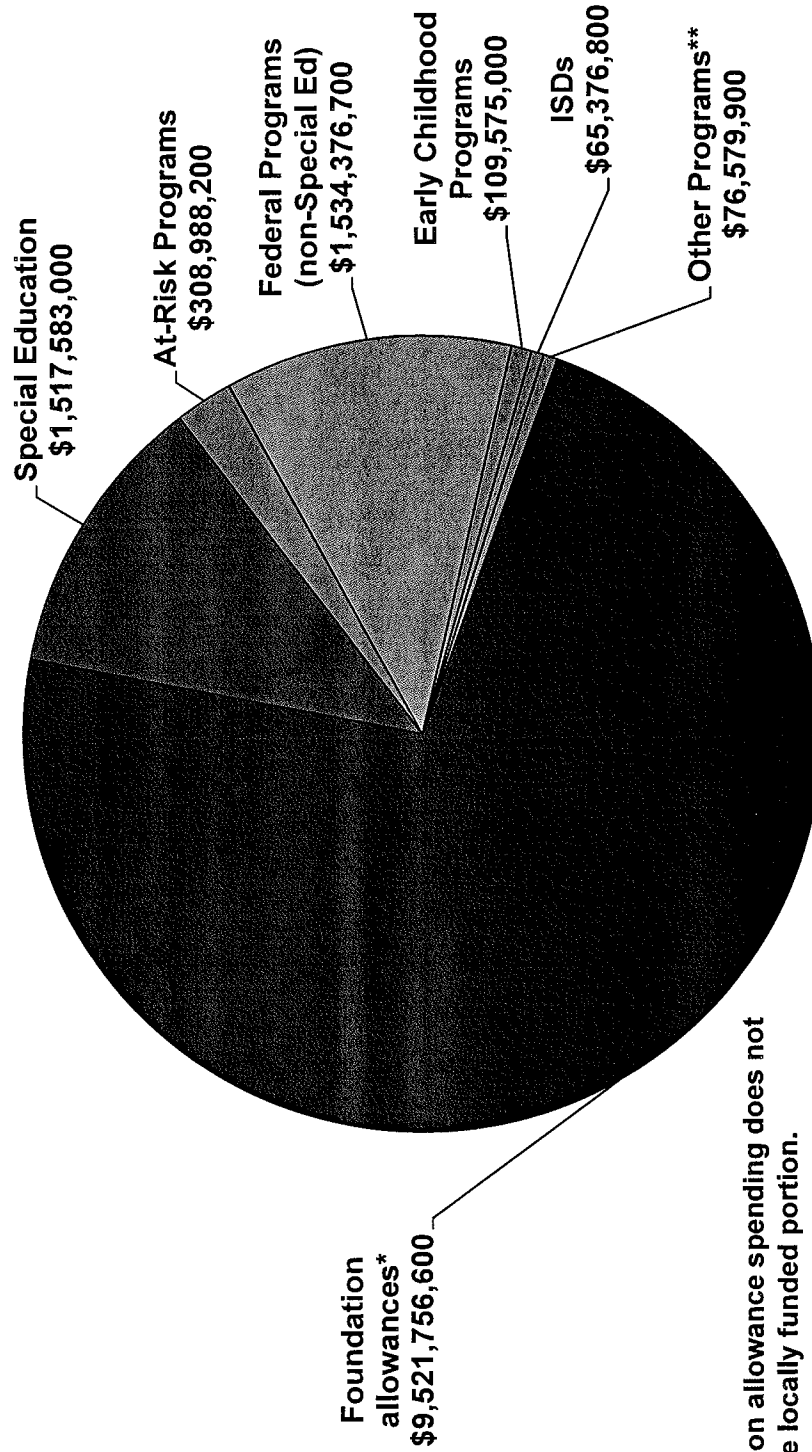
The School Aid Budget includes the following major spending categories :

- **Foundation Allowances**
  - Per pupil payment for general school operations
  - \$9.5 billion in FY 2010-11
  - 72% of the School Aid Budget
- **Special Education**
  - Reimburses districts for a portion of their special education costs
  - \$1.5 billion in FY 2010-11
  - 12% of the School Aid budget
- **At-Risk Programs**
  - Additional funds to help students at risk of academic failure
  - \$309.0 million in FY 2010-11
  - 2% of the School Aid Budget
- **Early Childhood Programs**
  - Provides preschool programs for 4-yr-olds and parenting programs for parents of children ages 0-5.
  - \$109.6 million in FY 2010-11
  - 1% of the School Aid Budget

# School Aid Appropriations

Foundation allowances, used for school operations, absorb almost \$3 out of every \$4 spent.

FY 2010-11 School Aid Budget = \$13,134,236,200



\* Foundation allowance spending does not include the locally funded portion.

\*\* Other programs include \$345 million in spending as well as a \$269 million reduction applied as a \$170 per pupil reduction to total state aid payments.

# **MAJOR BUDGET ISSUES**

# Major School Aid Issues

- School Aid Revenues
- Foundation Allowances
- Special Education Funding
- Public School Academies
- Declining Enrollment

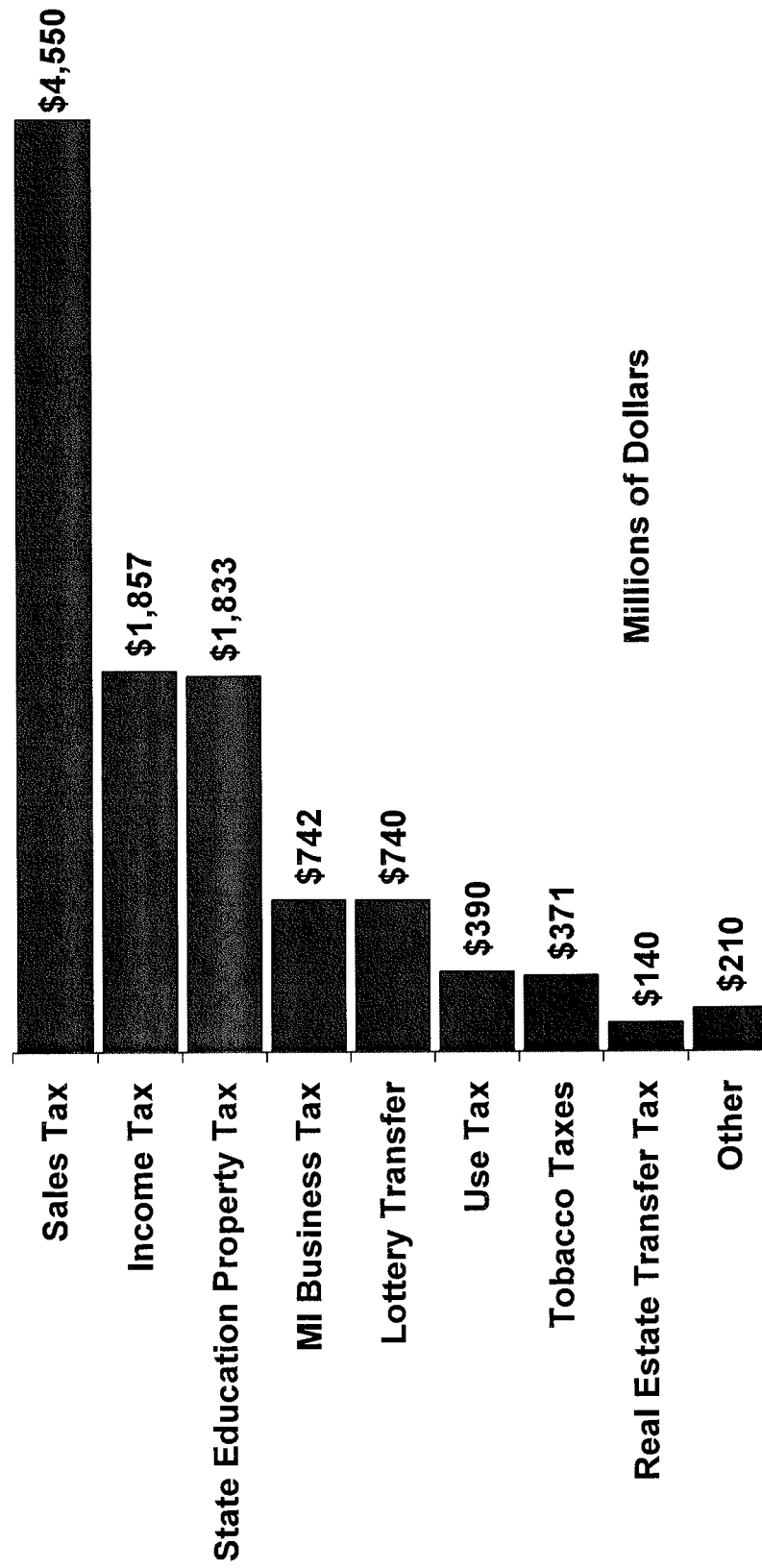
# **SCHOOL AID REVENUE**

## **School Aid Fund (SAF) Revenue**

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked , or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF will receive approximately \$10.8 billion in revenue for FY 2010-11.
- Largest sources of SAF revenue are shown on next slide.

# FY 2010-11 SAF Revenue Sources

State sales tax, income tax, and state education property tax are the three largest sources of SAF revenue.



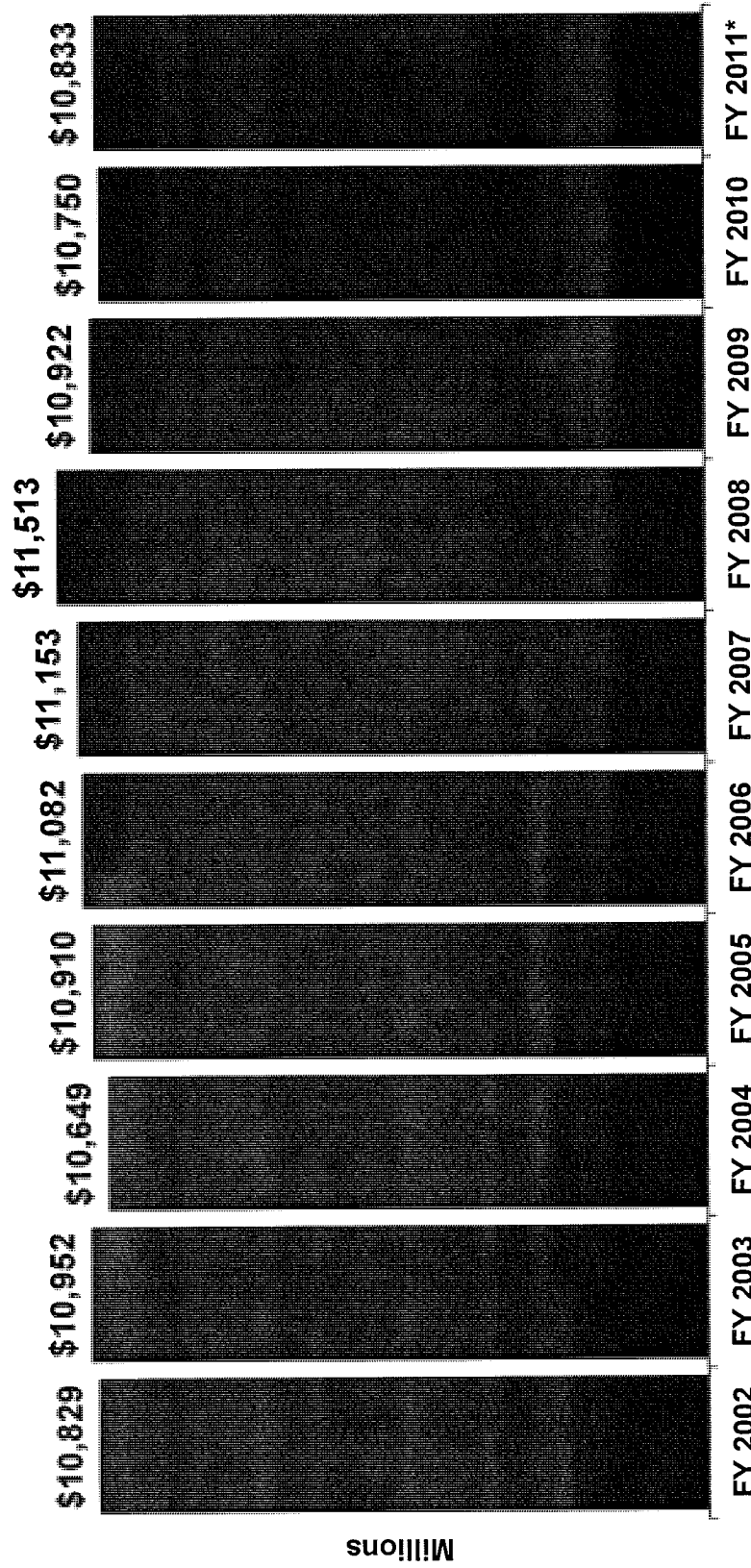
Source: May 2010 Revenue Estimating Conference

House Fiscal Agency: January 2011



# SAF Revenue History

School Aid Fund is estimated to collect over \$10.8 billion in FY 2010-11, down 6% from its high in FY 2008-09.

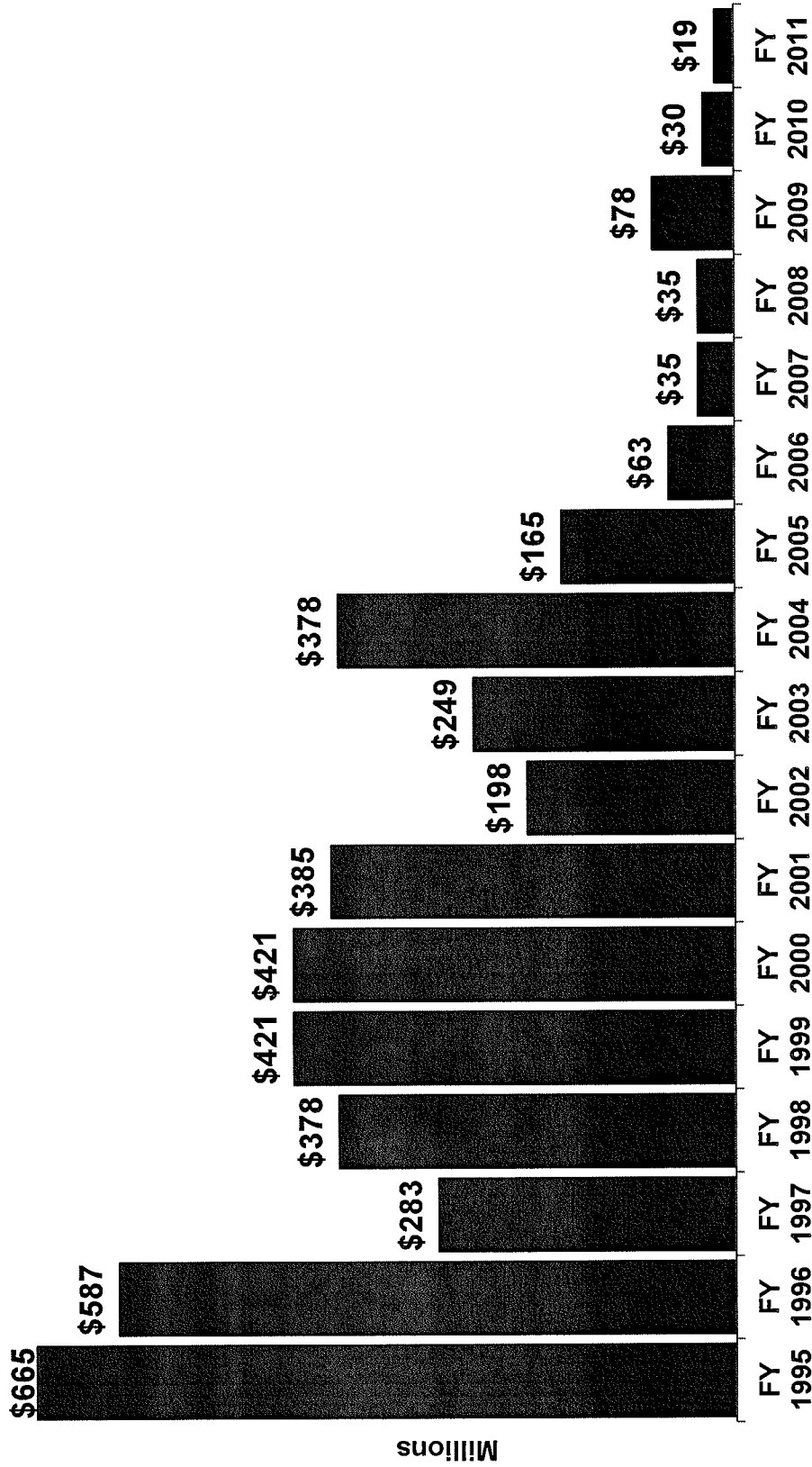


\* FY 2011 figures from May 2010 Revenue Estimating Conference

House Fiscal Agency: January 2011

# GF/GP Contribution to School Aid

GF/GP will contribute \$19 million to the School Aid Budget in FY 2010-11, the lowest its been since the implementation of Proposal A in 1994-95.



# **FOUNDATION ALLOWANCES**

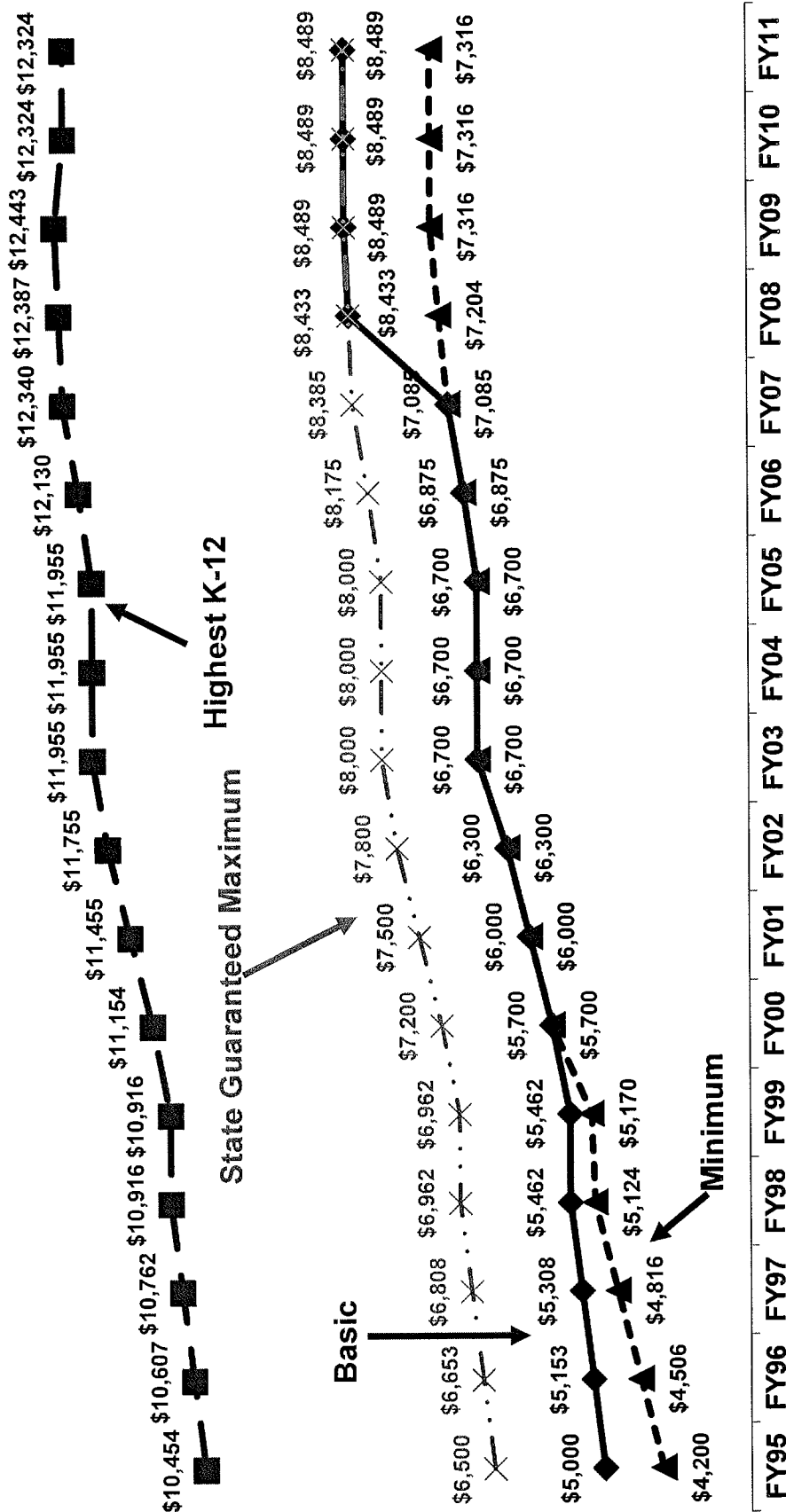
## Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations created as part of the “Proposal A” school finance reforms in 1994-95.
- Districts receive a foundation allowance (per pupil funding amount) initially determined in 1994-95, based on what the district collected from both state and local funds on a per-pupil bases in 1993-94.
- Initial 1994-95 levels:
  - Minimum Level of funding established: \$4,200
  - Basic Level determined: \$5,000
  - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500.
- Varies for K-12 districts from a low of \$7,316 per pupil to a high of \$12, 324 in FY 2010-11.

# Foundation Allowance History

## Growth Since Proposal A

In FY 2007-08 the basic was increased to the state-guaranteed maximum foundation allowance.



## **“Basic” Foundation Allowance**

- The “Basic” foundation allowance was a minimum goal established in 1994 as part of the Proposal A reforms, and it is set by the Legislature each year as a target per-pupil funding level.
- In FY 1999-2000, all school districts in Michigan reached the Basic foundation allowance, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the Minimum to decrease the funding gap between those at the top and bottom.
- In FY 2007-08, the legislature re-set the Basic foundation allowance to equal the State Guaranteed Maximum foundation and reinstituted the 2x formula under which districts at the bottom receive twice as much an increase as those at the Basic or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.

# **Foundation Allowance**

## **State/Local Funding Mix**

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per-pupil basis.
- State deducts per-pupil local revenue from the lesser of the district's foundation allowance or state guaranteed maximum per pupil amount.
- Districts above the state guaranteed maximum (hold harmless districts) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance.



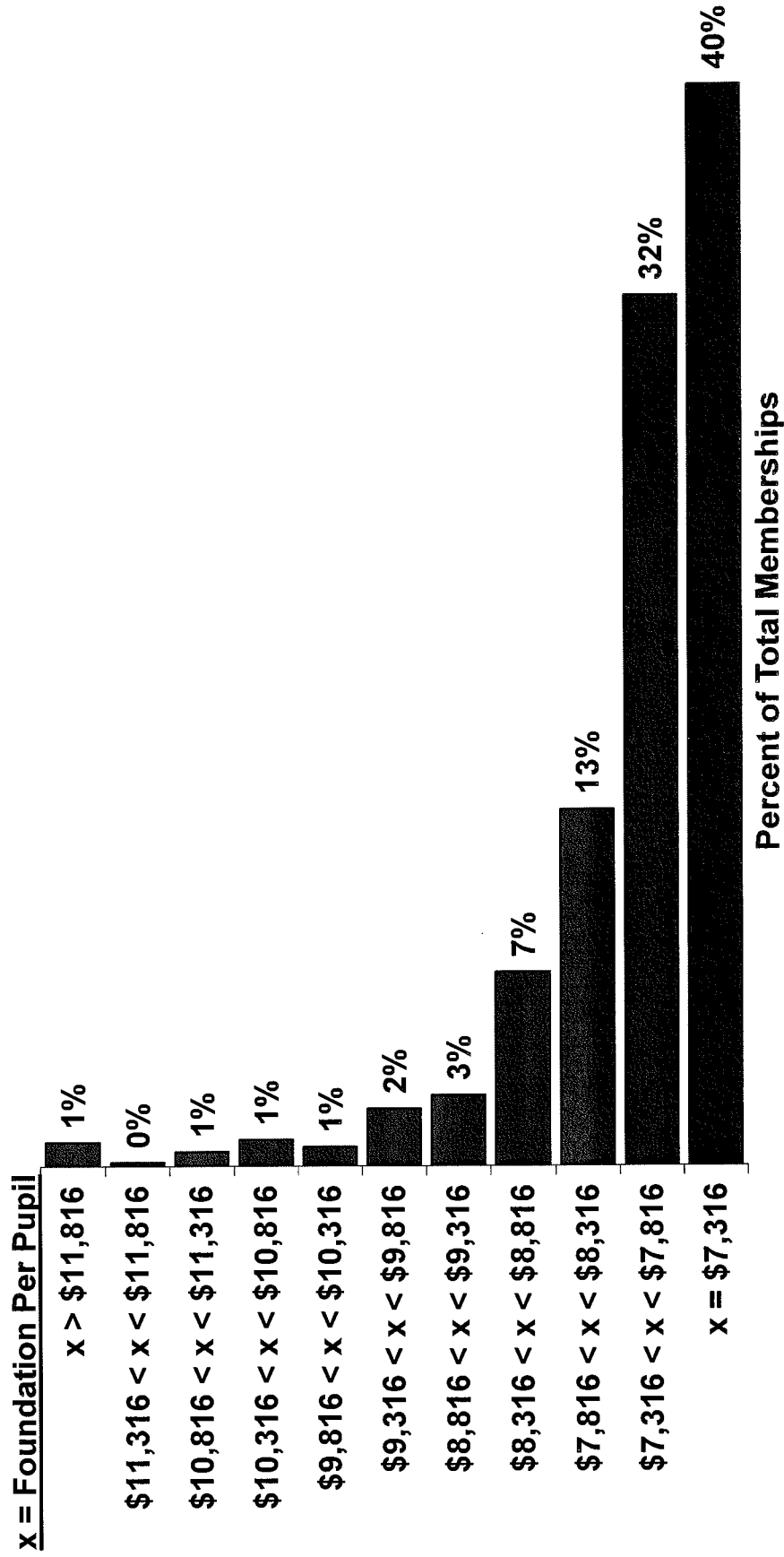
## Equity Among Districts

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1.
- In FY 2010-11, the difference between the highest and lowest K-12 district is \$5,008, less than 2:1.
- In FY 1994-95 there were 356 districts and public school academies below the Basic foundation allowance.
- By FY 1999-2000, all districts and public school academies were at or above the Basic foundation allowance.
- In FY 2010-11, there are 398 districts at the minimum foundation allowance, and 44 districts above the new Basic, with everyone else in between.

# Equity Among Districts

## FY 2010-11 Pupil Distribution

72% of pupils are concentrated in districts with a foundation allowance less than \$7,816.



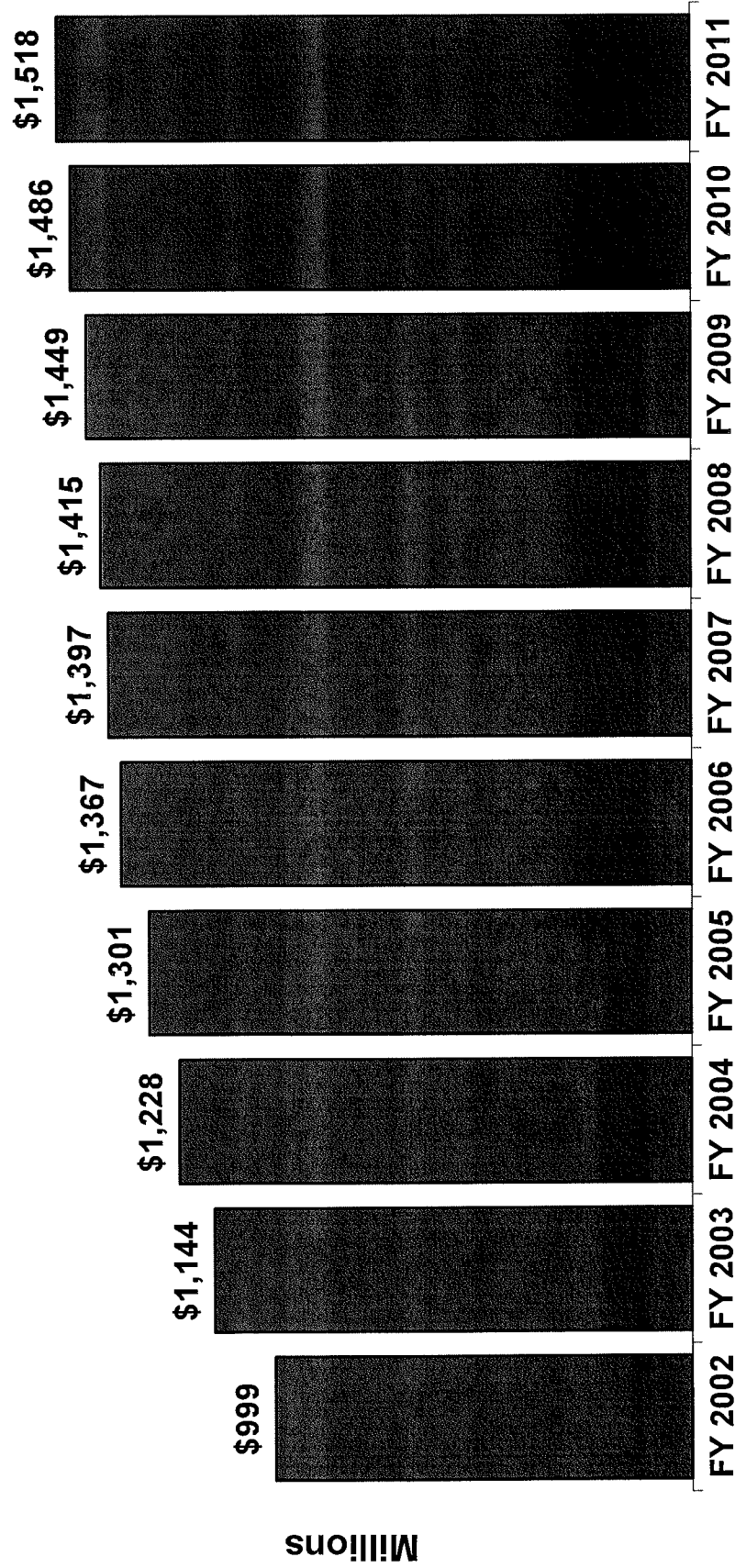
# **SPECIAL EDUCATION FUNDING**

## Special Education Funding

- Second largest School Aid appropriation in FY 2010-11
  - \$1,057.9 million state dollars
  - \$459.7 million federal dollars
- Reimburses school districts for the costs of educating special education students.
- Required reimbursement rates determined by the Michigan Supreme Court in *Durant v. State of Michigan* in 1997:
  - 28.6138% of Total Special Education Costs
  - 70.4165% of Total Special Education Transportation Costs

# Special Education Appropriations

This categorical grew by 52% between FY 2001-02 and FY 2010-11.



# **PUBLIC SCHOOL ACADEMIES**

## **Public School Academies (PSAs or Charter Schools)**

- A public school academy is a special type of public school formed by individuals or groups of individuals to use a special educational approach or serve a particular school population.
- Public school academies have been in existence since FY 1994-95 in Michigan.
- Charter schools are authorized to operate by universities, community colleges, intermediate school districts, and local school districts.



## **Facts About Public School Academies**

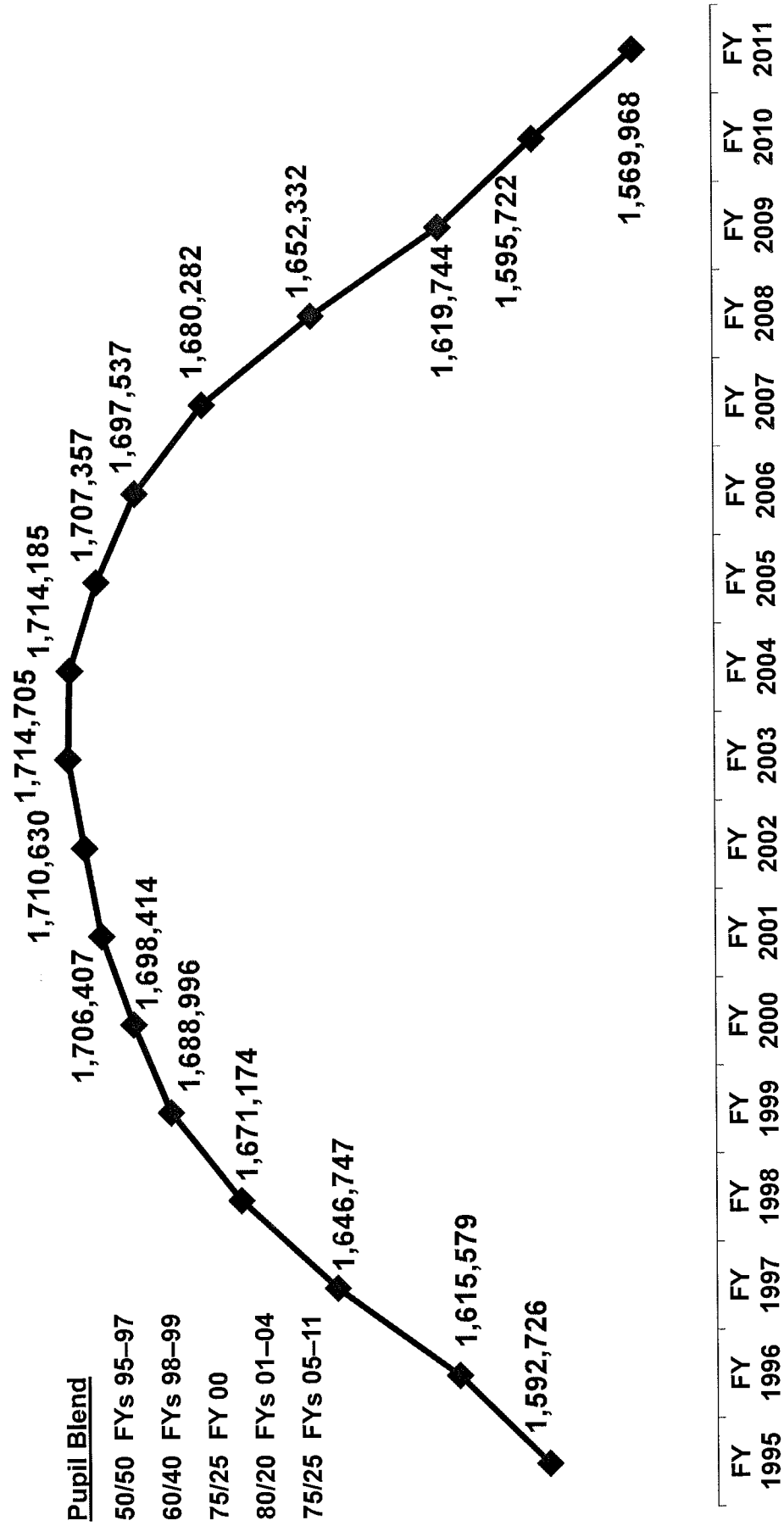
- **Number: 247 schools**
  - **Pupils: 111,800 pupils in PSAs**
  - **Average size: 450 pupils per school**
  - **Percent of pupils in PSAs: 7.1% of public school students**
  - **The number of public school academies that state universities may authorize is currently limited to 150.**
  - **PSA FY 2010-11 foundation allowance equals the lower of:**
    - **Foundation allowance of the school district in which it is physically located**
- OR**
- **\$7,580 per pupil**

# **DECLINING ENROLLMENT**

## **Declining Enrollment**

- Fewer pupils means a loss of revenue to schools.
- 74% of all traditional (non-PSA) districts face declining enrollment.
- The FY 2010-11 budget includes \$20 million for districts to be distributed as grants based on a three-year average pupil count for those with two consecutive years of decline. The actual total cost would reach nearly \$300 million, so payments will be prorated.

# Declining Enrollment Total Pupil Membership Counts



\* FY 11 December State Aid Payments.

House Fiscal Agency: January 2011

**For more information about the  
School Aid budget, contact:**

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